FDIC State Profile

Fall 2004

Washington

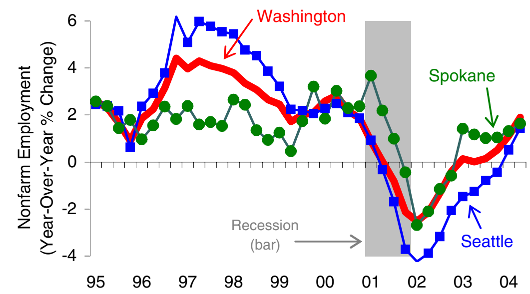
Washington reported 1.9 percent job growth in second quarter 2004, ranking ninth among the states.

- In recent quarters, the **Seattle** metropolitan statistical area (MSA) posted impressive employment gains and is now growing at nearly the same pace as the state. The **Spokane** MSA also reported strong job gains in recent periods (See Chart 1).
- Accelerated growth in the state's construction sector was a major contributor to job gains in both Seattle and Spokane. The professional and business services industries, however, added the largest number of jobs, accounting for about 20 percent of the state's change in nonfarm employment.
- The only major sector that reported job losses was manufacturing. Of the 5,400 jobs lost in the durable goods manufacturing sector, 4,400 were in aerospace. While the bulk of these losses were accounted for by layoffs at Boeing, anecdotal reports indicate that the company may begin re-hiring in late 2004 as a result of new commercial and military contracts.

Growth in the number of businesses in Washington ranked the state fifth nationally in 2003.

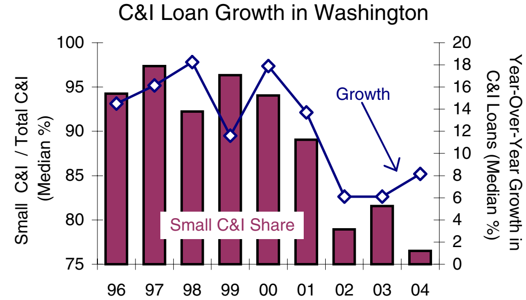
- The number of firms in Washington increased 2.9 percent during 2003, significantly faster than the state's growth during 2002, but lower than the growth rates recorded in the early 1990s. Despite a strong business formation rate, the number of business bankruptcies filed by firms in Washington also ticked up in 2003. More than 700 firms filed for bankruptcy in 2003, an increase of 5.6 percent from 2002 levels. Nevertheless, business bankruptcies in 2003 were still only about half as high as levels during the early 1990s.
- Between mid 2002 and mid 2003, the median growth rate in small business loans (original balances of under $1 million) was 4.1 percent, up from the prior year. However, small commercial and industrial (C&I) loan portfolio growth slowed through mid 2004 to a rate of 2 percent on a median basis. Increases in larger C&I loans outpaced smaller business credits over the period, lifting the overall median C&I loan growth rate to 8.1 percent in June 2004.

Chart 1: The Seattle and Spokane Metro Areas Are Both Reporting Strong Job Growth



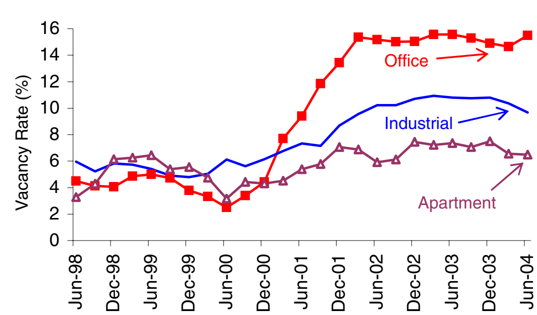
Sources: Bureau of Labor Statistics, Bureau of Economic Research

Chart 2: Larger Business Loans Recently Led C&I Loan Growth in Washington



Note: Data as June 30th. Includes all Washington based insured institutions open at least three years. Small commercial and industrial loans have original balances under $1 million.
Source: FDIC

Chart 3: Seattle's Commercial Real Estate Markets Have Stabilized



Source: Torto Wheaton Research

As a result, small business loans have declined as a share of total C&I loans among most Washington-based insured institutions over the past few years (See Chart 2).

Commercial real estate (CRE) conditions in Seattle have stabilized, but institutions maintain large concentrations of CRE[1] and construction loans.

- Seattle's commercial property vacancy rates appear to have leveled off (See Chart 3). In the 12 months ending second quarter 2004, the office vacancy and rental rates were relatively flat, although vacancies increased on a quarter-over-quarter basis because of negative absorption during second quarter 2004. The industrial availability rate improved, falling more than a percentage point in the past 12 months to 9.7 percent in the second quarter of 2004; industrial rents strengthened during the same period. Apartment vacancy rates likewise improved, but rents remained under pressure.

- Improving market fundamentals are important given elevated CRE loan exposures among Seattle-area insured institutions (See Chart 4). The median CRE loan-to-Tier 1 capital ratio among established community institutions based in the Seattle MSA increased to 420 percent as of June 2004, which exceeded levels reported elsewhere in the state.[2] Concentrations in construction and development loans, one of the riskier components of CRE lending, were also high among this group of institutions.

- Although signs of a market turnaround have been mild, the median past-due CRE loan ratio reported by Seattle's established community institutions continued to decline, falling from 0.48 percent in June 2003 to 0.23 percent in June 2004. Sustained low interest rates over the period likely facilitated the trend.

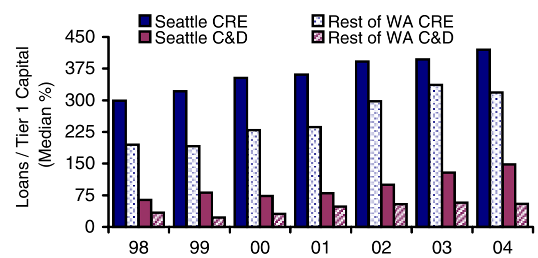
Earnings performance improved slightly among insured institutions headquartered in Washington.

- Within the state, the median return on assets (ROA) ratio rose slightly to 1.05 percent as of June 30, 2004, comparable to a national median of 1.03 percent.

- Among commercial banks, lower overhead and loan loss provision expense ratios boosted profitability. In contrast, ROAs declined among savings institutions, most of which were unable to match strong ROA performance achieved in mid 2003. Increases in overhead-to-average asset ratios often overwhelmed favorable trends in net interest margins, fee income levels, and provision expense burdens.

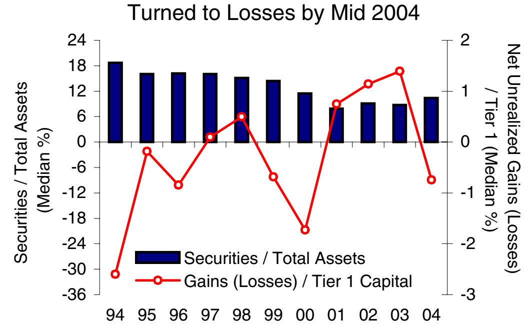
- Although one-third of commercial banks based in Washington used securities gains to boost income during the first half of 2004, recent and anticipated interest rate increases may dissipate future gains-taking opportunities. After several years of positive unrealized portfolio gains, Washington-based banks reported a median net unrealized securities losses-to-Tier 1 capital ratio of 0.74 percent in second quarter 2004 (See Chart 5). The effects of interest rates on debt securities valuations will warrant monitoring, as securities typically account for at least 10 percent of total assets among banks based in the state.

Chart 4: Seattle-Area Institutions Reported High Concentrations of CRE and C&D Loans



Notes: Includes nonspecialty insured institutions based in Washington, open at least three years, and holding less than $1 billion in assets. Commercial real estate (CRE) includes nonfarm-nonresidential, multifamily, and construction and development (C&D) mortgages.
Source: FDIC (Data as of June 30th)

Chart 5: Unrealized Gains in Securities Portfolios Turned to Losses by Mid 2004



Note: Data as of June 30th for all Washington based bank Call Report filers.
Source: FDIC

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[1] CRE loans include mortgages secured by nonfarm-nonresidential, multi-family and construction projects.
[2] Defined as insured institutions open more than three years, with assets of less than $1 billion, and excludes specialty institutions.

Washington at a Glance

General Information	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Institutions (#)	98	102	101	99	106
Total Assets (in thousands)	78,589,525	81,675,665	69,380,689	74,588,294	70,197,935
New Institutions (# < 3 years)	7	7	12	16	20
New Institutions (# < 9 years)	30	33	35	34	34

Capital	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Tier 1 Leverage (median)	10.02	9.48	9.75	9.69	10.56

Asset Quality	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Past-Due and Nonaccrual (median %)	0.77%	1.04%	1.67%	1.39%	0.81%
Past-Due and Nonaccrual >= 5%	5	7	8	5	6
ALLL/Total Loans (median %)	1.35%	1.35%	1.29%	1.13%	1.07%
ALLL/Noncurrent Loans (median multiple)	2.13	1.80	1.49	1.66	1.96
Net Loan Losses/Loans (aggregate)	0.13%	0.23%	0.27%	0.19%	0.12%

Earnings	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Unprofitable Institutions (#)	3	6	10	14	17
Percent Unprofitable	3.06%	5.88%	9.90%	14.14%	16.04%
Return on Assets (median %)	1.05	1.03	1.02	0.93	1.07
25th Percentile	0.69	0.67	0.63	0.49	0.43
Net Interest Margin (median %)	4.65%	4.58%	4.67%	4.50%	5.17%
Yield on Earning Assets (median)	6.06%	6.44%	7.30%	8.60%	8.69%
Cost of Funding Earning Assets (median)	1.45%	1.85%	2.44%	4.12%	3.68%
Provisions to Avg. Assets (median)	0.19%	0.27%	0.28%	0.26%	0.24%
Noninterest Income to Avg. Assets (median)	0.59%	0.65%	0.60%	0.58%	0.48%
Overhead to Avg. Assets (median)	3.43%	3.61%	3.55%	3.62%	3.69%

Liquidity/Sensitivity	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
Loans to Deposits (median %)	95.29%	89.30%	90.63%	91.95%	90.72%
Loans to Assets (median %)	75.97%	72.54%	74.55%	76.31%	75.77%
Brokered Deposits (# of Institutions)	39	33	33	24	17
Bro. Deps./Assets (median for above inst.)	2.78%	3.28%	2.89%	3.48%	1.67%
Noncore Funding to Assets (median)	21.84%	21.52%	22.45%	23.07%	21.10%
Core Funding to Assets (median)	66.64%	66.76%	65.37%	64.78%	66.25%

Bank Class	Jun-04	Jun-03	Jun-02	Jun-01	Jun-00
State Nonmember	58	62	62	59	64
National	13	13	15	15	16
State Member	4	4	2	2	2
S&L	6	7	7	7	7
Savings Bank	2	2	1	2	2
Stock and Mutual SB	15	14	14	14	15

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Seattle-Bellevue-Everett WA PMSA	37	49,194,538	37.76%	62.60%
No MSA	29	8,963,585	29.59%	11.41%
Tacoma WA PMSA	8	3,142,048	8.16%	4.00%
Spokane WA	6	10,317,773	6.12%	13.13%
Olympia WA PMSA	5	1,586,877	5.10%	2.02%
Yakima WA	3	1,373,589	3.06%	1.75%
Portland-Vancouver OR-WA PMSA	3	1,383,849	3.06%	1.76%
Bremerton WA PMSA	3	946,469	3.06%	1.20%
Richland-Kennewick-Pasco WA	2	239,080	2.04%	0.30%
Bellingham WA	2	1,441,717	2.04%	1.83%